Consolidated Balance Sheets

Assets

	December 27, 1969	December 28, 1968
Current Assets:		
Cash and temporary investments	$ 55,510,834	$ 92,913,143
Notes and accounts receivable, less allowance for losses ($5,753,025 in 1969 and $5,179,039 in 1968)	178,573,157	159,044,117
Inventories, at lower of average cost or market—		
Products and materials	314,176,822	286,339,907
Supplies	26,906,478	24,113,457
Total current assets	$575,167,291	$562,410,624
Property, Plant & Equipment, at cost:		
Land	$ 22,026,637	$ 20,339,642
Buildings	252,846,000	242,691,869
Machinery and equipment	469,639,124	447,225,444
	$744,511,761	$710,456,955
Less—Accumulated depreciation (See note)	384,612,319	363,765,460
	$359,899,442	$346,691,495
Other Assets:		
Miscellaneous investments and receivables	$ 11,394,749	$ 11,885,913
Prepaid and deferred items	4,796,990	3,698,706
Intangibles (See note)	26,425,771	23,458,481
	$ 42,617,510	$ 39,043,100
	$977,684,243	$948,145,219

(See Notes to Consolidated Financial Statements, pages 25 and 26.)

Liabilities and Stockholders' Equity

	December 27, 1969	December 28, 1968
Current Liabilities:		
Accounts payable and accrued liabilities	$172,607,183	$159,823,348
Short-term loans of International Subsidiaries	25,025,265	17,898,253
Provision for Federal and foreign taxes on income	20,967,405	23,828,157
Current portion of long-term debt, less amounts provided for payment ($6,467,000 in 1969 and $3,600,000 in 1968)	30,708,000	1,200,000
Total current liabilities	$249,307,853	$202,749,758
Long-Term Debt (See note)	$ 57,376,774	$ 87,727,814
Other:		
Deferred taxes on income	$ 14,194,479	$ 12,404,869
Reserves for insurance, etc.	5,664,423	4,622,862
Minority interest in subsidiaries	2,022,056	1,942,526
	$ 21,880,958	$ 18,970,257
Contingent Liabilities (See note)		
Stockholders' Equity (See note):		
Preferred stock, $1.00 par value—authorized 10,000,000 shares; none issued at December 27, 1969	$ —	$ —
Common stock, $2.50 par value—authorized 60,000,000 shares; issued 29,331,748 shares at December 27, 1969 and 29,302,125 shares at December 28, 1968	73,329,370	73,255,312
Capital surplus	47,166,728	46,282,206
Retained earnings (at December 27, 1969, $116,125,000 restricted as to payment of dividends under indentures)	586,344,146	557,795,753
	$706,840,244	$677,333,271
Less—Treasury stock at cost—1,410,939 shares at December 27, 1969; 963,365 shares at December 28, 1968	57,721,586	38,635,881
Stockholders' equity	$649,118,658	$638,697,390
	$977,684,243	$948,145,219

(See Notes to Consolidated Financial Statements, pages 25 and 26.)

Consolidated Statements of Income

Kraftco Corporation . . . and Subsidiaries

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Income:		
Net sales	$2,580,905,215	$2,428,105,530
Other income	9,186,564	8,286,755
Total	$2,590,091,779	$2,436,392,285
Costs and expenses:		
Cost of products	$1,970,676,147	$1,852,960,144
Delivery, selling, and administrative expense	455,423,943	425,808,660
Interest on long-term debt	3,721,971	3,589,566
Miscellaneous charges, net	3,923,317	2,458,100
Total	$2,433,745,378	$2,284,816,470
Income before Federal and foreign taxes	$ 156,346,401	$ 151,575,815
Provision for Federal and foreign taxes on income	80,721,000	75,414,000
Net income for the year	$ 75,625,401	$ 76,161,815
Net income per share of common stock	$ 2.69	$ 2.67
Average number of shares outstanding during the period	28,111,096	28,497,431

Consolidated Statements of Retained Earnings

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Balance at beginning of year	$ 557,795,753	$ 526,519,802
Net income for the year	75,625,401	76,161,815
	$ 633,421,154	$ 602,681,617
Dividends on common stock ($1.675 per share in 1969 and $1.575 in 1968)	47,077,008	44,885,864
Balance at end of year	$ 586,344,146	$ 557,795,753

(See Notes to Consolidated Financial Statements, pages 25 and 26.)

Consolidated Statements of Source and Application of Funds

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Source of Funds:		
Funds derived from operations—		
Net income for the year	$ 75,625,401	$ 76,161,815
Non-cash charge—Depreciation	42,305,221	41,206,083
	$117,930,622	$117,367,898
Sale of common stock under options	1,188,015	2,292,585
	$119,118,637	$119,660,483
Application of Funds:		
Dividends paid on common stock	$ 47,077,008	$ 44,885,864
Property, plant and equipment additions, net	55,513,168	44,248,051
Decrease (increase) in long-term debt, net	30,351,040	(2,583,111)
Treasury stock acquired, net	19,315,140	17,150,997
Other applications, net	663,709	1,850,220
	$152,920,065	$105,552,021
(Decrease) Increase in Working Capital	$(33,801,428)	$ 14,108,462

Notes to Consolidated Financial Statements... December 27, 1969

Depreciation
Depreciation charges are generally computed on a straight-line basis over estimated useful lives of buildings and estimated composite group lives of machinery and equipment.

Intangibles
Intangibles represent the excess of the purchase prices paid over the net book values of the tangible assets of certain businesses acquired since 1955. The Company does not now intend to amortize items carried in this account.

Contingent Liabilities
Substantial amounts are involved in various legal proceedings in which the Company is a defendant. It is not feasible to predict or determine the outcome of these proceedings, the adjustments in operations which adverse decisions might require or the ultimate liabilities, if any, which might result, but it is believed that the outcome would not materially affect the Company's consolidated financial position or operations.

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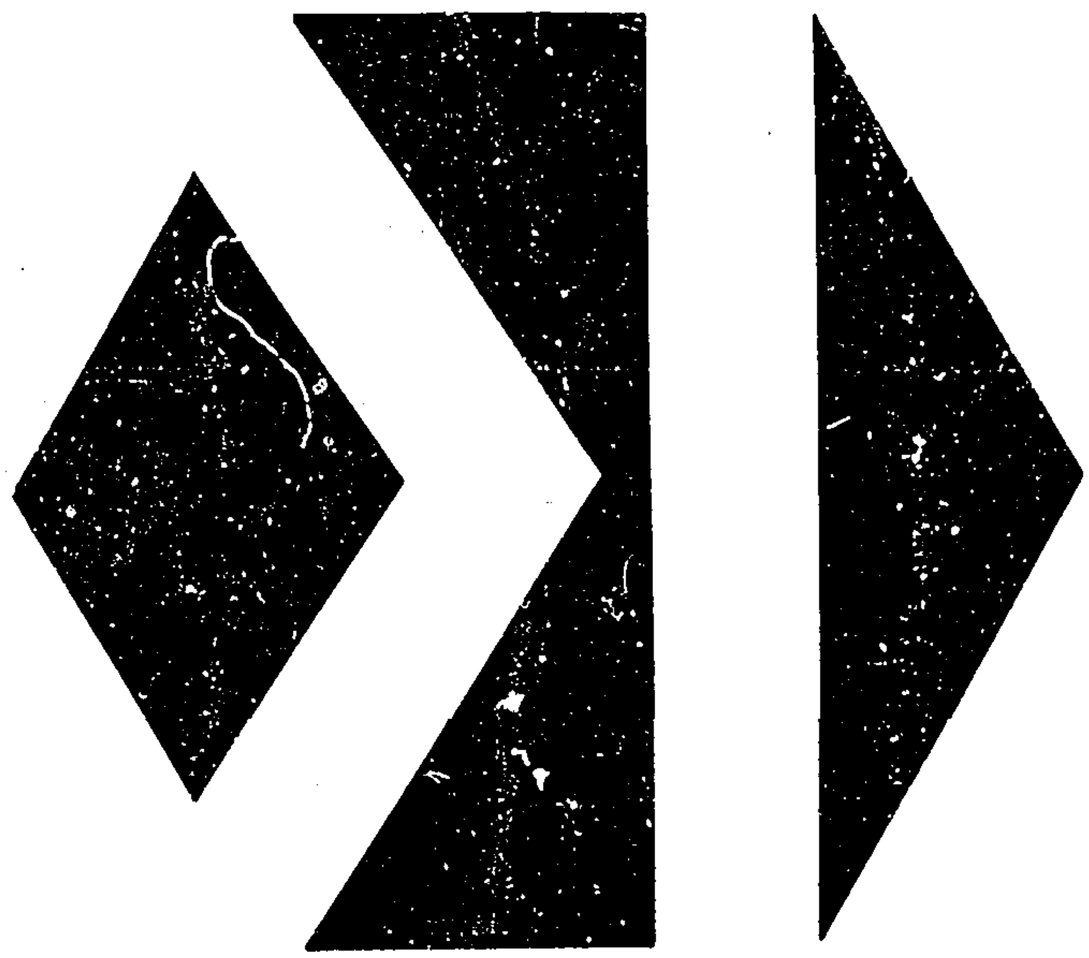
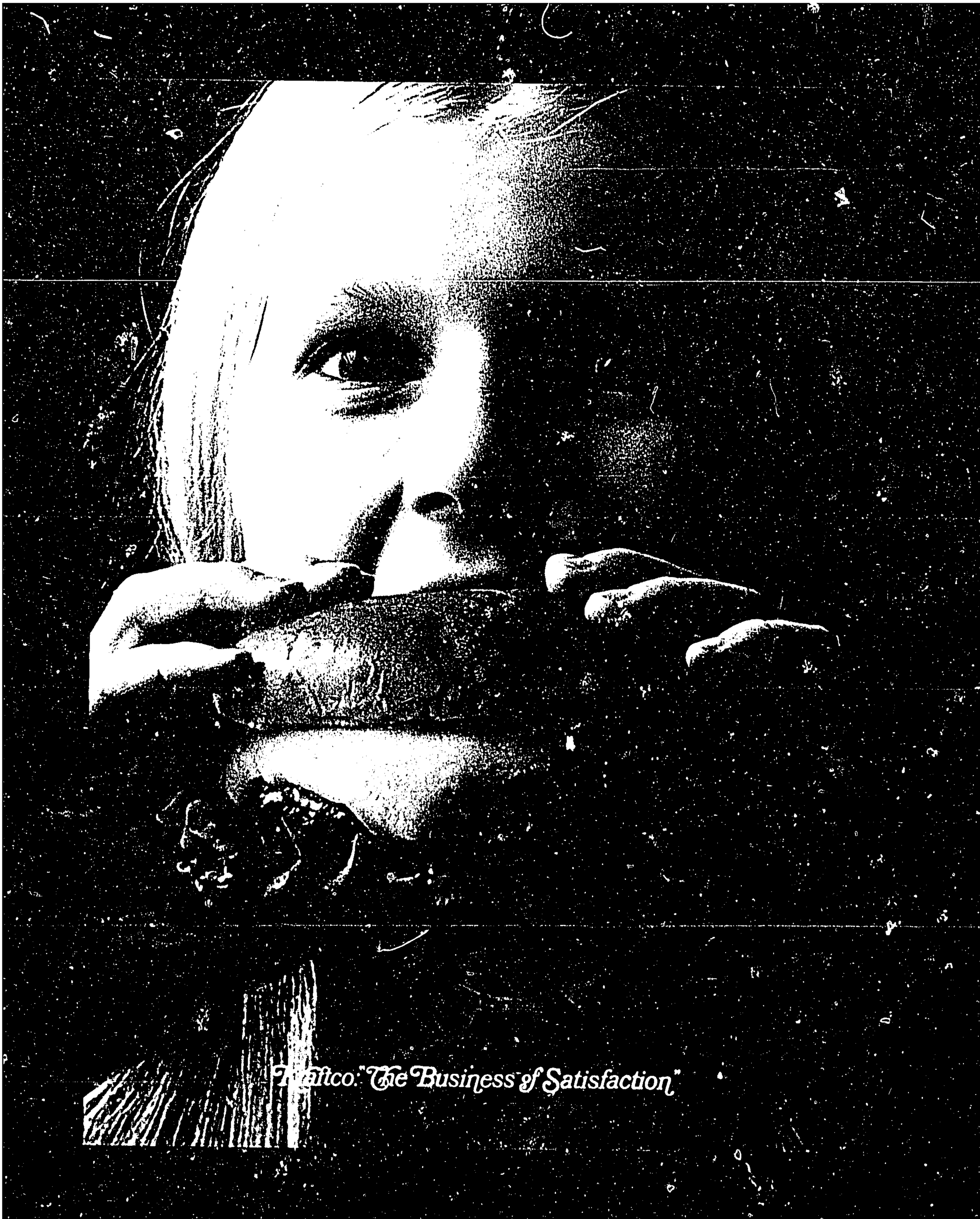


Annual Meeting

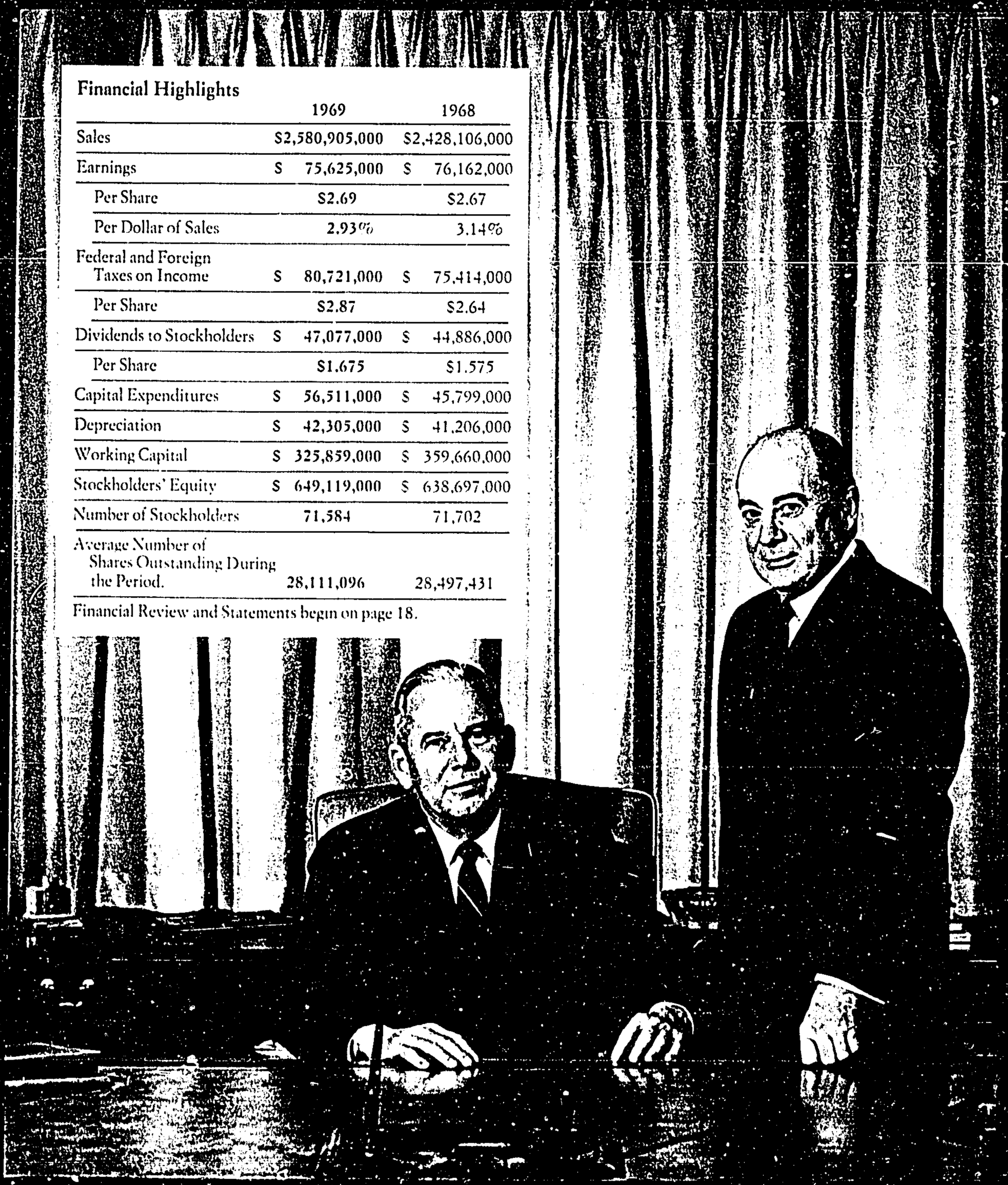
Stockholders of Kraftco Corporation are cordially invited to attend our Annual Meeting which will take place on Thursday, April 16, 1970, at 11 a.m. at the Fairmont Hotel in Sa[illegible]ancisco.


Realtco: "The Business of Satisfaction"

Financial Highlights

	1969	1968
Sales	$2,580,905,000	$2,428,106,000
Earnings	$ 75,625,000	$ 76,162,000
Per Share	$2.69	$2.67
Per Dollar of Sales	2.93%	3.14%
Federal and Foreign Taxes on Income	$ 80,721,000	$ 75,414,000
Per Share	$2.87	$2.64
Dividends to Stockholders	$ 47,077,000	$ 44,886,000
Per Share	$1.675	$1.575
Capital Expenditures	$ 56,511,000	$ 45,799,000
Depreciation	$ 42,305,000	$ 41,206,000
Working Capital	$ 325,859,000	$ 359,660,000
Stockholders' Equity	$ 649,119,000	$ 638,697,000
Number of Stockholders	71,584	71,702
Average Number of Shares Outstanding During the Period.	28,111,096	28,497,431

Financial Review and Statements begin on page 18.



To Our Stockholders

The year 1969 closes a decade of growth and expansion for our Company. Sales during the 1960's increased $975,180,000. Net earnings increased $26,263,000. Dividends to stockholders totaled $364,237,000, and expenditures for capital improvements during the ten years totaled $467,262,000.

The growth and changes experienced over the years are reflected in the change of our Corporate name. We entered the 1960's as National Dairy Products Corporation. We enter the 1970's as Kraftco Corporation. Expansion and innovation have taken us far afield from the regional milk and ice cream business we started with in 1923. Dollar sales of these original products have remained relatively static over the past ten years and, in 1969 accounted for approximately 25% of our sales and were offered in only two of the more than 100 countries where our products are distributed.

We have manufacturing facilities in many countries, and have taken steps to achieve a greater multinational ownership. To accomplish this, we listed our stock in 1969 on exchanges in Canada, England, West Germany, Belgium and Switzerland. Those, plus the Midwest Stock Exchange in Chicago were added to the New York Stock Exchange and the exchanges in Sydney, Adelaide and Melbourne, Australia, where our stock has been traded for many years.

Sales during 1969 were at an all time high, both in dollars and in volume of products. They amounted to $2,580,905,000, up 6.3% over 1968. Earnings before Federal and foreign taxes on income also increased, amounting in 1969 to $156,346,000. This is an increase of $4,770,000, or 3.1% over the prior year. Earnings after taxes dropped slightly to $75,625,000. This is 0.7% below the record high established in 1968. Financial details appear later in this report.

During 1969 Kraftco acquired Vancouver Fancy Sausage Co., Ltd., in Vancouver, British Columbia and Dowdall, O'Mahoney & Co., Ltd., in Ireland. We also entered into a 50% joint venture arrangement with Morinaga Milk Industry Company, Ltd., in Japan to form the MK Cheese Company.

There was one change on the Board of Directors during 1969. On April 17, Mr. Paul C. Cabot retired from the Board in accordance with Company policy on tenure of Directors. Mr. Cabot served this Company as a Director for 25 years. During this time, his extensive knowledge and sound business judgment made invaluable contributions to our success and growth.

Mr. John D. deButts, Vice Chairman of the Board of American Telephone and Telegraph Company, was elected a Director at the 1969 Annual Stockholders' Meeting.

The success of our Company is the result of the efforts of many people. We thank the members of our Board of Directors for their counsel and guidance during the year, and extend special thanks to our 48,000 employees around the world for their efforts. We also thank our stockholders for their continuing interest in the affairs of the Company, and our customers, producers and suppliers for their trust and support.

We look forward with enthusiasm and optimism to the coming year and the decade of the 70's. Our Company faces many challenges and changes. We are confident that they will be met and that we will continue to serve consumers throughout the world with nutritious foods of the highest quality.

Gordon Edwards
Chairman of the Board

William O. Beers
President

New Products to Meet New Demands

Few things are as dynamic as the marketplace. New technology makes new products possible. Competition and constantly changing consumer demands make new and improved products necessary for growth.

Something Old, Something New

A continuing flow of new products enables Kraftco to compete successfully in its world-wide markets. These new products, added to established products introduced in past years, have a positive effect on sales and profits. In 1969, the cumulative effect was that more of our products moved off more shelves into more homes in more parts of the world than ever before in our history.

The year 1969 not only brought new products to consumers, but saw distribution of established products expanded. In the United States, Kraft Foods placed seven new products into test market, moved 17 products from test market into regional distribution and moved 16 products from regional into national distribution. These products include various cheeses, jellies and preserves, salad dressings, dessert toppings, margarines, frozen dinners, dry packaged dinners, and condiments. Also in the United States, Breakstone Sugar Creek Foods brought out four new products and Sealtest Foods added eight in their respective marketing areas. Those from

Breakstone included Swiss Parfait Yogurt, Low Fat Creamed Cottage Cheese and Cultured Sour Dressing. Sealtest's included: Chive and Sweet Pepper Flavored Creamed Cottage Cheese, Mandarin Orange Flavored Creamed Cottage Cheese and five new ice cream flavor combinations. Sealtest also expanded the distribution of its successful "Light n' Lively" line of products.

In Canada, Kraft introduced ten new products. They included Russian Dressing, three low calorie pourable salad dressings, and four packaged dinners.

A number of new products were introduced into overseas markets. Kraft-Leonesas, S.A., in Spain, introduced a total of eight varieties of five new products; and Kraft G.m.b.H., in Germany, brought out four new products in a total of 20 varieties. Some of these products are familiar in the U.S., but have not been previously available in these countries. They include mayonnaise and Velveta process cheese spread in Spain; and yogurt (eight flavors), Jocca brand cottage cheese, and individually wrapped processed cheese slices (five flavors) in Germany. Kraft-Germany also expanded its non-food line with the introduction of Pack-Frisch clear plastic sandwich bags.

Bringing Products to Consumers

In 1969 steps were taken in various areas to improve the distribution of products to customers, and to provide production capacity to meet expected future demands.

In Italy, Kraft S.p.A. established its own sales force in December of 1969, to replace sales through independent distributors. Implementation of this change, including hiring and training personnel for sales, distribution and administration, as well as establishing new facilities for production and distribution, followed almost two years of market studies and planning. Following this change, Kraft in Italy is planning a program of new product introductions. Alimentos Kraft de Venezuela, C.A. also established its own sales force to improve market coverage. In 1969, Kraft-Venezuela purchased an additional cheese plant, expanding its cheese varieties and production capacity.

Major expansion of capacity for consumer products in North America centered around five projects in the Kraft Foods Division. These are: construction of a macaroni and noodle plant and a process cheese manufacturing facility in Champaign, Illinois; the purchase of 356 acres near Allentown, Pa., as the location of a processed packaged foods production and distribution facility to be started in 1970; the construction of a cream cheese and cheddar cheese plant in Lowville, N.Y.; the completion of a bulk cheddar cheese plant in Ingleside, Ontario; and a cheese cutting and packaging facility in Pocatello, Idaho.

These developments are part of Kraftco's continuing effort to provide high-quality, nutritious foods at a fair price. That has been the base of our past growth; it is our approach to the future.

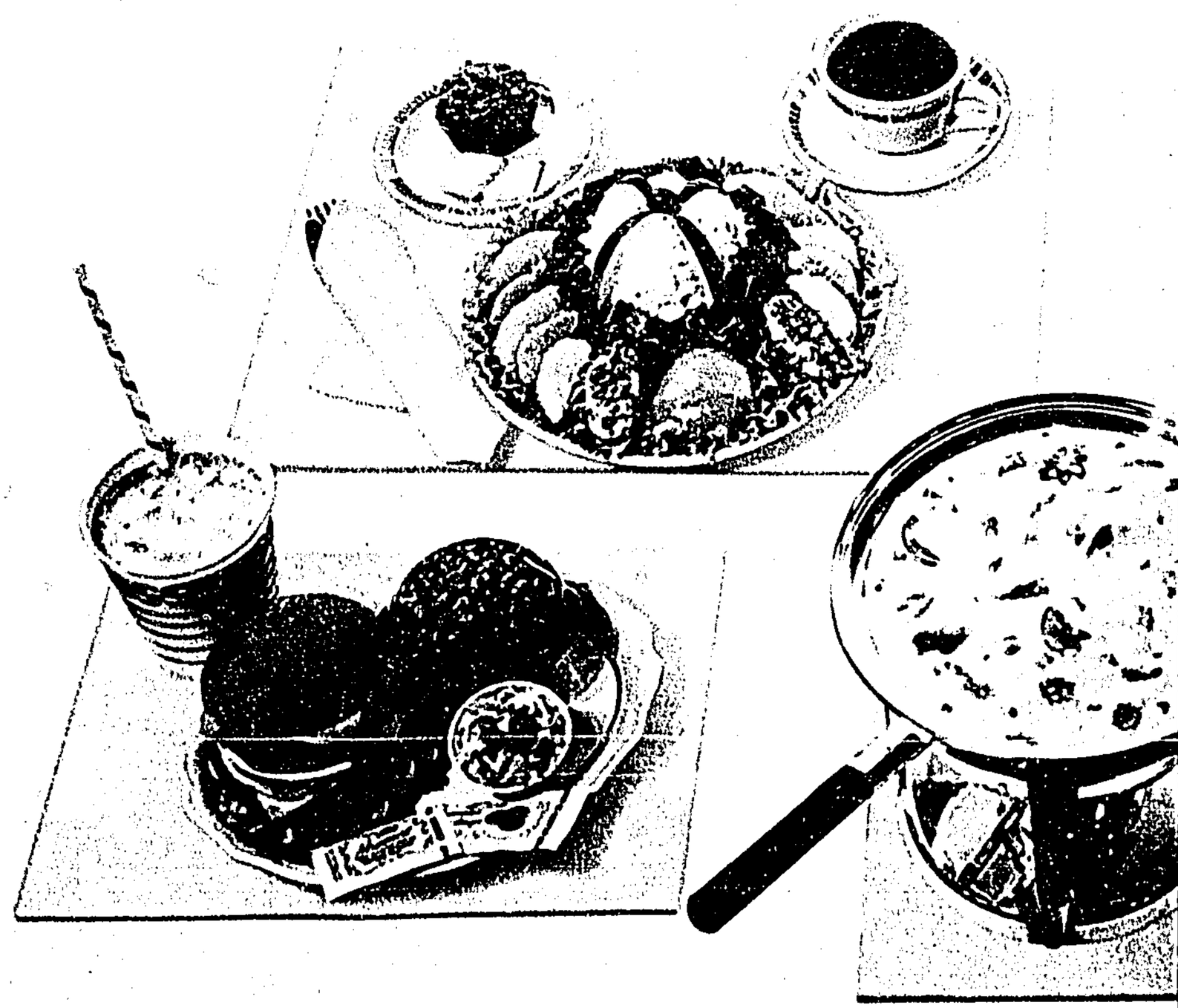
The amount of money spent annually on food and beverages away from home averages $400 to $500 per American family. The total adds up to about $76 million each day, or $27 billion each year.

There is plenty of room for growth. At present, only about a third of the population regularly patronizes food service establishments. Some experts are predicting that by 1975, eating out and other parts of the food service industry will grow to a $45 to $50 billion business, accounting for nearly half the food consumed in the U.S.

Pressures for Change

Traditionally, food service establishments have prepared meals in their own kitchens. More and more, the food industry is being asked to provide processed foods which require much less kitchen work. This is the same kind of demand that brought a large number of convenience products to household consumers, and it is now in evidence in restaurants, industrial and school cafeterias, hospitals, military facilities . . . in all types of food service outlets. For Kraftco, it means a rapidly expanding market for processed, conveni-

Eating Out: A Booming Business

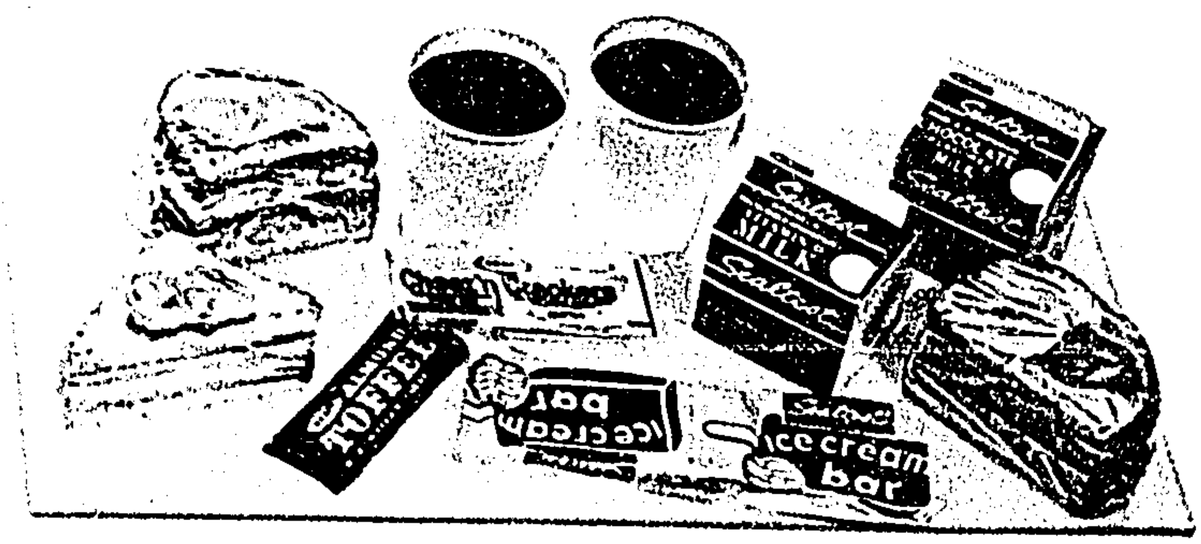


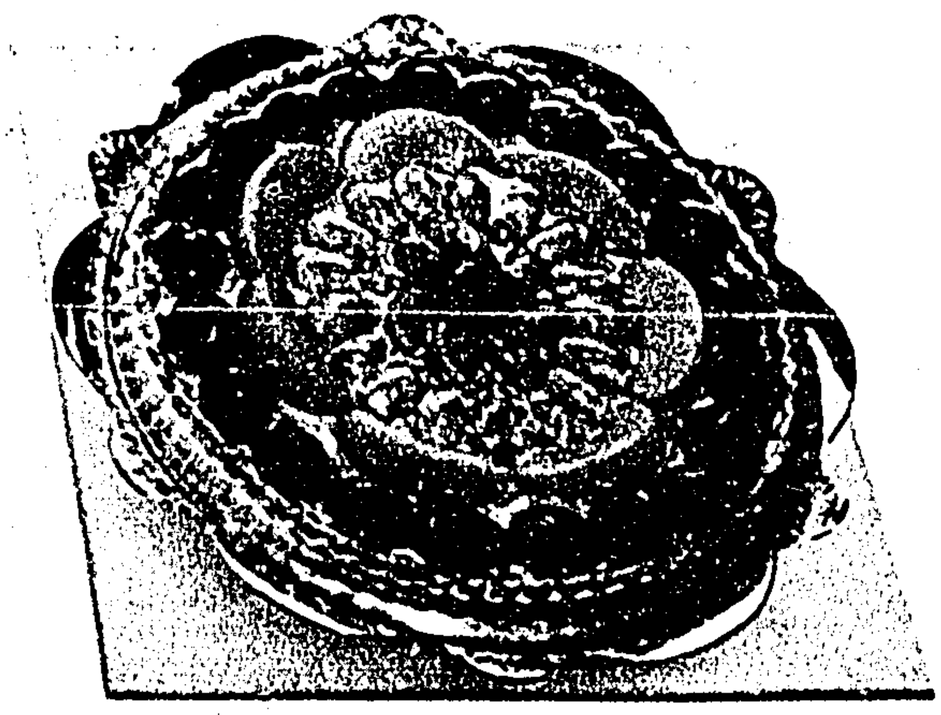
ence foods. These range from canned entrees and vegetables to single portion condiments.

In virtually any eating out situation, consumers could be enjoying Kraftco products... the cheese on cheeseburgers, the cottage cheese products in salads and the dressing on them, the sour cream on the baked potatoes, the soup, the milk, or the ice cream for dessert, the hashed-brown potatoes, the tangy German-style mustard.

During 1969, 45 new and improved items were added to Kraftco's line of institutional products in the United States. Some of these are familiar to household consumers, such as Green Goddess Dressing, Thousand Island Dressing, and Horseradish Sauce. Others have been packaged especially for the institutional market; Diced Tomatoes, Cottonseed Oil, Kidney Bean Salad, Sliced Dill Pickles and Prune Juice are among them.

In Canada, new institutional products in 1969 included Wild Cherry Syrup, Tuna Fish, Lima Beans, and Instant Cocoa. Kraftco's institutional products now number over 600 items, and as customer demands change and grow, the number of items we offer will grow as well. The same factors at work in the retail consumer food market are also influencing the institutional market: more people with more money and more time to spend it who want and will pay for service.





A great many of Kraftco's products are very well known. Many others are not generally known; but as ingredients in products made by other companies they benefit countless people every day.

Products from our chemical operations may have had a hand in making the tires on your car, or the grease and oil in it, or the asphalt road on which it runs. Other products may have found their way into the soap in your bathroom, or the toothpaste, the mouthwash, the cosmetics, shampoo, shaving cream and pharmaceuticals you use.

Our food products show up as ingredients in the products of many other processors. Snack foods such as potato chips, pretzels and popcorn; pies, crackers, cookies and bread; pie, cookie and cake mixes; even cereals, instant breakfast products and pet foods. It's possible, too, that your favorite beverage comes in a Metro Glass bottle.

Industrial Products

New Products for Growth

The diverse applications for Kraftco's industrial products have resulted from a high level of technical excellence and product innovation. 1969 saw still more products added to our lines.

The HumKo Products Division brought out five new industrial food products last year, with applications ranging from non-dairy whipped toppings to coffee whiteners and products requiring a high-stability oil. In addition, HumKo's Chemical Division introduced seven new products during the year. These were formulated for use in such products as plastics and plastic production systems, metal cutting fluids and textile softeners.

The Metro Glass Division increased production substantially in the past three years. In 1969, the

Division began producing green glass bottles to meet demands in the rapidly growing non-returnable soft drink bottle market.

The Kraft Foods Division introduced a new line of bakery mixes in 1969, consisting of four donut mixes and one hot roll mix. Kraft also brought out Green Onion and Barbecue snack seasonings and a new dairy blend for the ice cream industry. Kraft's line of animal feeds was expanded with the addition of a new poultry feed and green-apple flavored feed supplement for horses.

New Facilities to Meet Future Demand

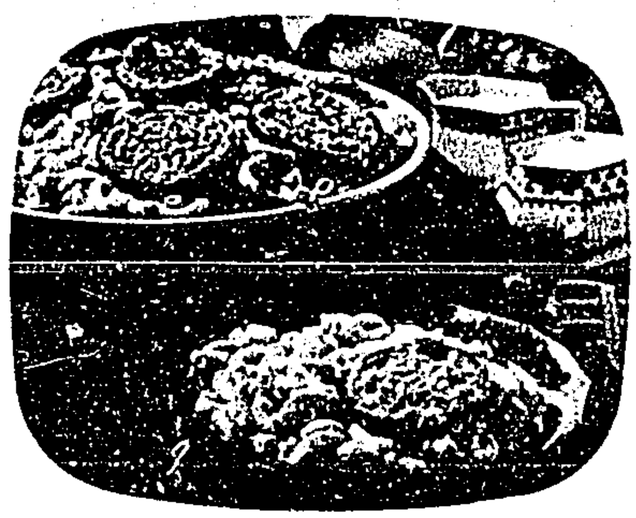
Our capacity for producing packaging materials was expanded in two places during the year. A new plant was opened in Baudour, Belgium, which will supply Kraftco subsidiaries and other companies in Europe with sophisticated flexible films and materials for food packaging. Production of certain plastic packaging materials was also begun in Kraft's Mount Carmel, Pa., plant.

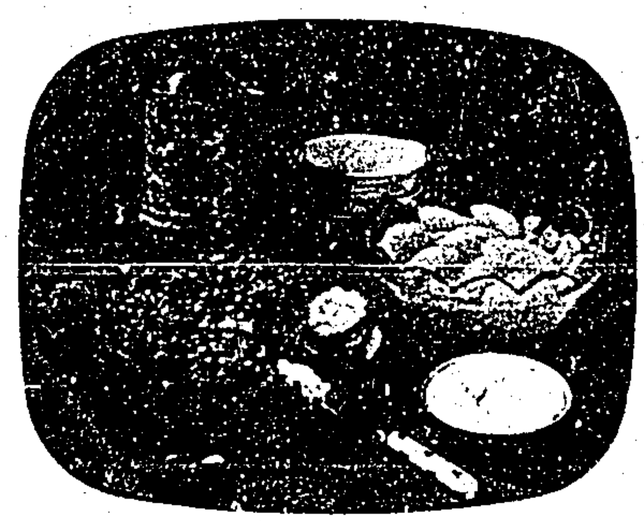
Metro Glass continued its expansion and modernization with the completion of a 75,000 square foot warehouse in Washington, Pa.

HumKo is completing the construction of a dimer acid plant in Memphis, Tenn. The plant is highly automated, and is scheduled to start production in 1970. Dimer acids are used in such products as resins, adhesives and printing inks. HumKo is also completing new facilities for the production of bisamides, high melting synthetic waxes used in plastic systems as slip agents, lubricants and mold release agents.

Kraftco's industrial products comprise an important and growing part of our business. Through them, our Company is present in many aspects of people's lives.

Marketing: Offering What People Want





Success of the magnitude enjoyed by Kraftco is not the result just of offering excellent products. It is the result of having excellent products backed by great skill in marketing.

The marketing process begins by determining what people want to buy, and why. It is finding out what values people attach to food and to eating—finding out how people want food to look and taste—finding out what kinds of packaging are the most desirable, and the optimum level of built-in convenience.

With this knowledge as a base, our marketing people then work to turn ideas for products into something tangible on the pantry shelf. This involves working with the research laboratories to be sure we can offer nutritious, high-quality products that meet identified demands at a fair price. It involves working with our home economic centers in various parts of the world to test the products under in-home conditions and to develop service suggestions. It means working with production experts to develop the best, most efficient methods of producing products; working with distribution experts to be sure the products become available to those who want them.

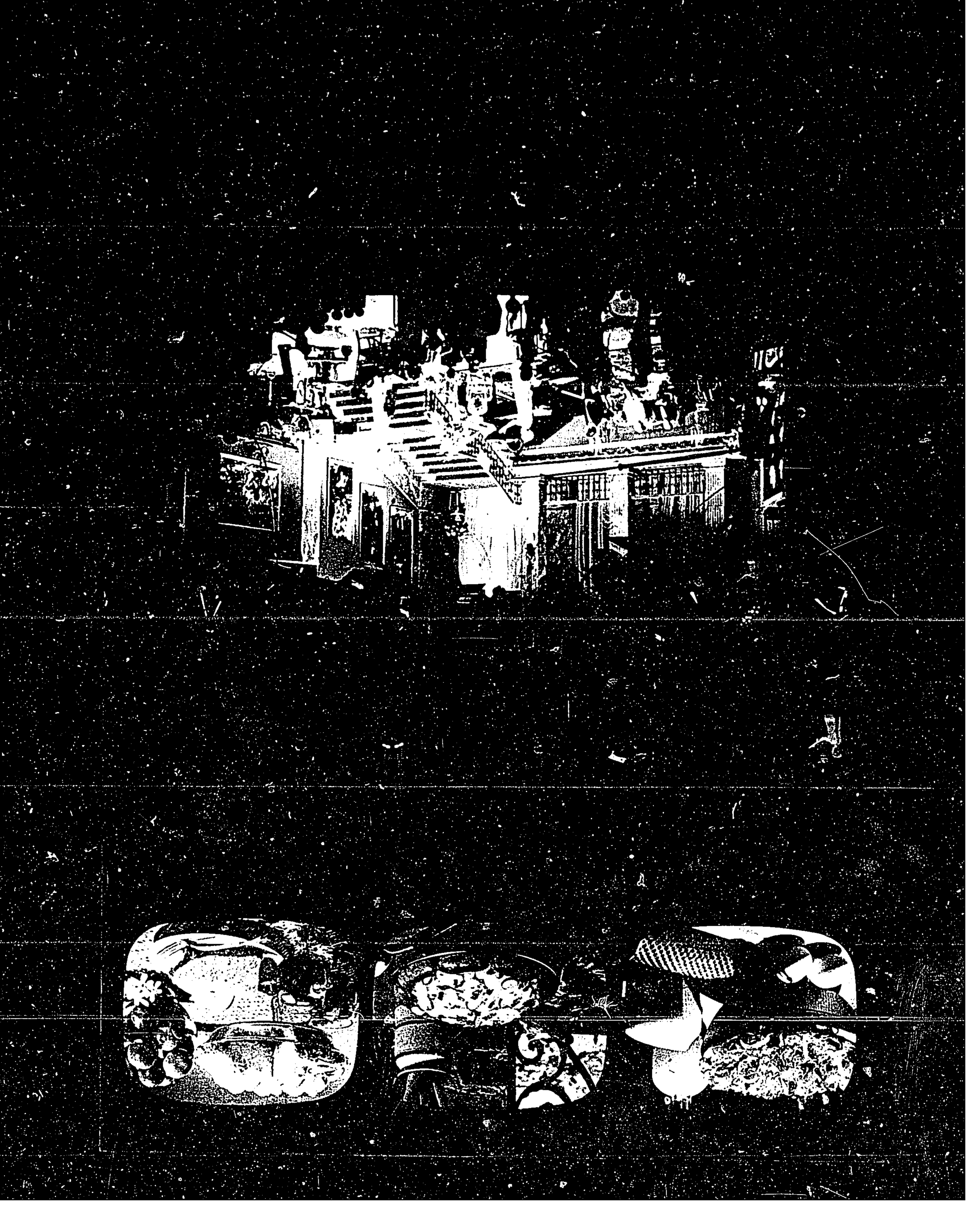
Extra-Product Benefits

Consumer buying patterns are influenced by many factors. Foremost, of course, is the quality and value of the product itself. But there are other values surrounding the product, though not intrinsic to it, that also exert a great deal of influence. In food, some of the extra-product benefits are varied ways in which the product can be used and combined with other foods to meet the consumer's needs and those of her family. This is why at Kraftco we take a service-oriented marketing approach. We offer good food, and we also offer good food ideas . . . suggestions to spark the imagination of the consumer and help her do her job at home as well as possible.

Consumer service is the major subject of our advertising. A very popular example is the Kraft Music Hall. Kraft has had programs on network television for as long as network television has existed . . . 22 years. The commercials on these shows concentrate on the products in a way that enhances their value to consumers by showing helpful ways to use the products. We want to be a helpful and well-mannered guest in our viewers' homes.

A World Without Boundaries

Effective marketing is similar in all areas where our products are distributed. Products differ, tactical details differ, but the concepts have universal application without regard to national boundaries. By having a wide variety of products, and by offering them in convenient forms, we broaden a housewife's opportunity to achieve a high level of expertise in the preparation of appetizing meals for her family. And whether on Kraft Music Hall, spot T.V. in North America or Europe, magazines or radio in Mexico or the Philippines or Venezuela, advertising supports the basic marketing concept of bringing useful service suggestions to consumers. It is one of the many ways that Kraftco's marketing effort reflects experience and knowledge gained throughout the world.



Kraftco has grown into a world-wide organization by meeting consumer demands . . . by providing what people need and want. Our growth has stemmed from our ability to respond to change. Our future will continue to be built around change . . . changes both in technology and in social and environmental patterns, and the degree to which we are aware of them and ready for them will determine the degree of our future success.

Changes in basic life styles will continue at an accelerated pace. These include still more leisure time, longer vacations, earlier retirements and greater affluence. They include more working wives who will want even more freedom from the time-consuming tasks in the kitchen. And there will be still greater emphasis on a casual, on-the-run style of living.

For Kraftco, these changes will mean more demand for products which offer the greatest possible built-in convenience.

R & D: The Search for Tomorrow

Meeting tomorrow's consumer needs will require innovation—the kind that has marked Kraftco's history for 46 years. Looking forward now, seeking answers to many questions that separate us from tomorrow are the scientists at our Research & Development Division

Kraftco:

"The Business of Satisfaction"

in Glenview, Illinois. There, processing specialists are building more quality and more convenience into Kraftco products. Packaging specialists are seeking better and more convenient ways of protecting products. Biochemists are working to gain more complete knowledge of the nutritional values of food. Other highly skilled experts seek ways to improve flavor and texture. Their work leads to growth. Through innovation they are helping to make the future happen and helping Kraftco pursue the business of satisfaction.

But greater scientific and technical skill is not all that will be demanded. Complete consumer satisfaction in the 70's will require much more.

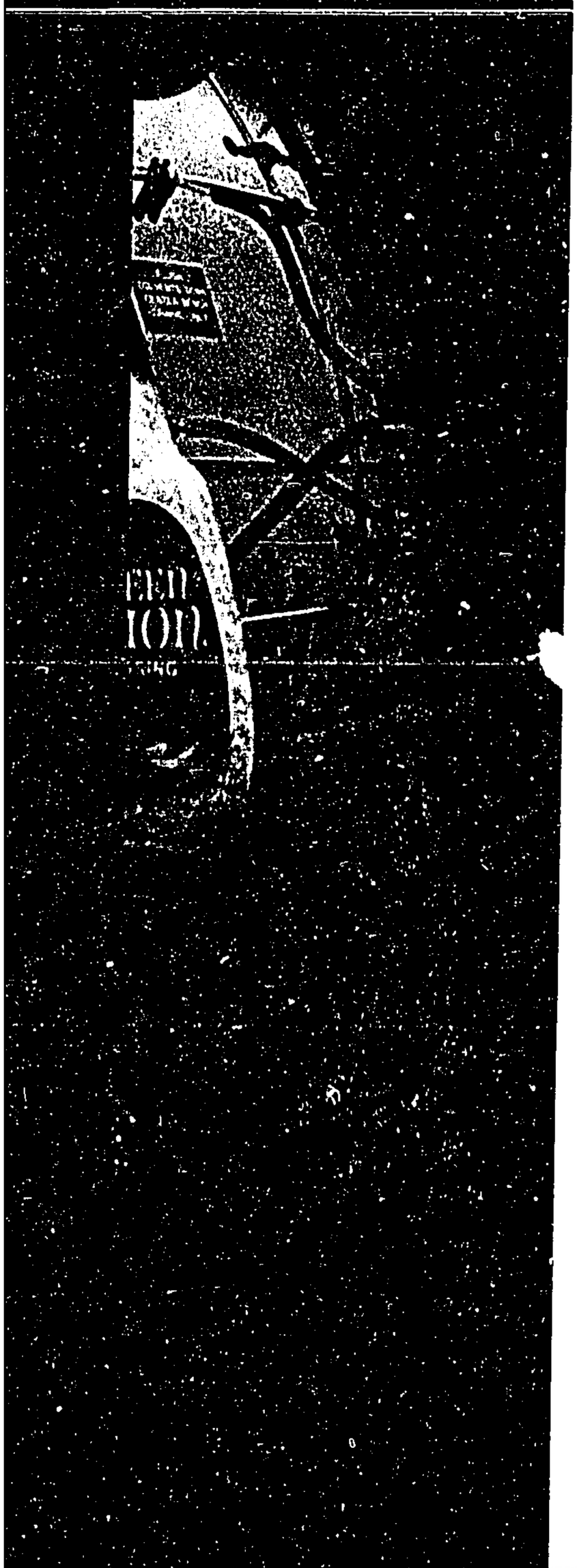
The Challenge of Tomorrow

As we enter the 1970's, we are aware of new dimensions in what is expected of business . . . expectations which go beyond quality products and built-in convenience. Business is operating in an atmosphere of increasing concern about the quality of human life.

Certainly, quality products will still be a prime requisite in the future. Technology, however, will be judged not only on what it produces, but also on how it produces . . . on how it affects the quality of our environment and society.

Kraftco recognizes and shares in the responsibility to help improve the environment in which we live and work. The quality of the environment affects the personal lives of all our employees and their ability to

KRAFT
NEW!
Light n Lively
LOW FAT
CREAMED COTTAGE
CHEESE
99% fat free



operate efficiently. And any threat to our environment is a potential threat to the quality of the raw materials upon which our business is built.

The search for tomorrow at Kraftco also involves other areas which bear on the quality of life. One of these has always been of concern to us: nutrition. Kraftco's principal products are made from raw materials that are universally recognized for their nutritional value. Our research efforts have been to bring these natural values to consumers in the convenient forms consumers want.

But there is still much to be learned about nutrition. We must know more about the relationship between the various elements in the diet and human metabolism. We must determine whether enriching the nutritional value of foods through the addition of vitamins, minerals and other elements is an appropriate means of upgrading the general level of nutrition, and, if so, what foods shall we enrich? With what? And how much of it?

We must continue to expand on practical ways of sharing the knowledge we gain with consumers so that malnutrition which results from inadequate information is eliminated.

And we must help find ways to bridge the gap between the available food supply and those people throughout the world who are getting too little of it. All of us must work to solve these problems.

Another challenge we must continue to meet in the coming years is the creation of more opportunities for the economically disadvantaged. We see the role of Kraftco in helping to meet these needs as the same as that of any enlightened, concerned, corporate citizen. We actively participate in and support many programs designed to advance education, training, social welfare, health and medical research and youth opportunities. We sponsor a radio program which advises youths in and on the fringes of ghetto areas of opportunities to help themselves.

Ways should be found by all businesses to help those who need help in a manner that is consistent with sound business management. Ways should be found to permit every person to live a life of accomplishment and dignity. The alternative will be a torn society, unhealthy for individual and business alike.

Kraftco's Shifting Product Mix

During the 1960's, Kraftco's product mix shifted significantly in the direction of Manufactured Dairy Products and Processed Food Products. This continuing trend will be an important source of future growth for our Company. Manufactured Dairy Products increased from 36.1% of sales in 1959 to 39.3% in 1969; Processed Food Products increased from 25.3% of sales in 1959 to 33.4% in 1969. Fluid Milk and Ice Cream, on the other hand, accounted for 36.6% of sales in 1959 and 24.7% in 1969.

Kraftco's major classes of products are:

Manufactured Dairy Products include processed and natural cheeses, butter, cottage cheese, cream cheese, yogurt, and sour cream together with powdered whey and other by-products derived from milk.

Processed Food Products include mayonnaise, salad dressings, salad oils and shortenings, jellies and preserves, margarines, packaged and prepared dinners, confections, citrus products, and refrigerated, ready-to-bake biscuits, rolls and cookies.

Fluid Milk Products consist of milk, cream, skim milk, chocolate milk, buttermilk, fortified low fat milk, and "Light n' Lively" low fat milk.

Ice Cream and Frozen Desserts include the many varieties of Sealtest ice cream and novelties, sherberts, ice milk and Breyers ice cream.

Other Products are primarily non-food items such as chemicals from the Sheffield Chemical Division of Sealtest and from HumKo, glass bottles from Metro Glass, and animal feeds and agricultural products produced by other Divisions.

Other Products

Fluid Milk Products

Ice Cream and Frozen Desserts

Manufactured Dairy Products

Processed Food Products

1969 Financial Review

Sales

During 1969, Kraftco recorded a new high in sales of $2,580,905,000, up $152,799,000 or 6.3% over the previous record of $2,428,106,000 established in 1968. This new high resulted from both a record volume of products sold in our world-wide markets and increased selling prices. Sales outside the United States and Canada were $273,625,000, an increase of $25,003,000 or 10.1% over 1968.

During the year, the Company continued its emphasis on directing marketing and capital resources toward the development and growth of higher-margined Manufactured Dairy Products and Processed Food Products. It is gratifying to report that these products accounted for $1,876,767,000, or 72.7% of sales in 1969, compared with $1,730,763,000, or 71.3% in 1968 and $984,918,000, or 61.4% in 1959. The percentage to net sales of each of our five major product classes over the last ten years is shown on the chart on page 20.

Earnings and Dividends

Consolidated earnings before Federal and foreign taxes on income in 1969 were $156,346,000, a 3.1% increase over the 1968 total of $151,576,000. This increase was achieved notwithstanding a decline of over 40% in the pre-tax profit contribution from United States milk and ice cream operations (which accounted for less than 4% of total pre-tax profits in 1969) and a decline of approximately 25% in such contribution from international operations (excluding Canada). The balance of Kraftco's business (which accounted for approximately 87% of total pre-tax profits in 1969) had a pre-tax profit increase for 1969 of over 11%.

U.S. milk and ice cream profits suffered from the industry trend to narrowing margins brought about in part by unprecedented levels of raw material, supply and labor costs. However, we extended the sale of higher-margin, Sealtest Light n' Lively low fat products through continued strong marketing support.

In our international operations, somewhat more than half of the decline in profits was due to higher production costs and increases in other operating expenses in the United Kingdom. Steps are under way to correct these problems.

Most of the remaining decline in international profits can be accounted for in costs resulting from the change-over from distributorship to a Kraft sales force in both Venezuela and Italy. Contributing to the decline were start-up costs for the new flexible packaging operation which came on-stream in mid-year in Baudour, Belgium. All three of these developments are in the nature of investments for future growth in international operations.

The overall pre-tax profit increase, however, was not sufficient to overcome a 7% or $5.5 million rise in Federal and foreign income taxes. Consolidated net earnings, therefore, declined 0.7% in 1969 to $75,625,000 from the record $76,162,000 realized in 1968.

Total income taxes, including the U.S. 10% tax surcharge, amounted to $80.7 million in 1969 compared to $75.4 million in 1968. About one half of this increase was for tax on increased profits. The other half was due to the effect of the elimination of the investment tax credit, which amounted to $1.6 million ($.06 per share), and to higher taxes in certain countries in which international subsidiaries operate, principally in Germany and Spain.

Total taxes in 1969 on earnings, real estate, equipment, inventories and payrolls were $114,096,000, or $4.06 per share, compared with $105,876,000, or $3.71 per share in 1968.

The cost of our products, comprised of raw materials, packaging and processing expenses, was 76.4% of sales in 1969, up only .1% from 76.3% in 1968. Delivery, selling and administrative expenses were 17.6% of our 1969 sales, compared with 17.5% in 1968. Included in this amount is advertising, which was 2.7% of sales in 1969, compared with 2.6% the prior year.

Dividends to stockholders were increased again during 1969, beginning with the June payment. Total dividends paid during 1969 were $47,077,000, an increase of $2,191,000 over the 1968 total of $44,886,000. Dividends per share were $1.67½ for the year, up from $1.57½ in 1968.

At the 1969 Annual Meeting, stockholders approved an increase in the Corporation's authorized number of shares from 40 million to 70 million, of which 10 million are preferred shares. The purpose of the increase was to provide Kraftco with more financial flexibility to meet changing conditions that develop. On January 26, 1970, Kraftco entered into an agreement with Grocery Store Products Co. for the acquisition of the business and assets of that company in exchange for approximately 667,000 shares of $1.50 Cumulative Convertible Preferred Stock (redeemable after five years at $37.50 per share). Each share of Preferred Stock would be convertible into 0.7 share of Common Stock.

Kraftco's program to purchase treasury stock for general corporate purposes was continued in 1969 with the purchase of 458,500 shares of common stock. Purchase was suspended in November 1969, pending completion of the proposed acquisition of the assets of Grocery Store Products Co. As of December 27, 1969, the Company held 1,410,939 shares. The Board of Directors has authorized the purchase of up to 600,000 additional shares during 1970.

Capital Expenditures

Expenditures during 1969 for new equipment and expanded production and distribution facilities totaled $56,511,000. Estimated expenditures for further expansion and modernization during 1970 are $65,000,000.

Depreciation charges in 1969 were $42,305,000; estimated depreciation charges for 1970 are $44,000,000.

Legal Matters

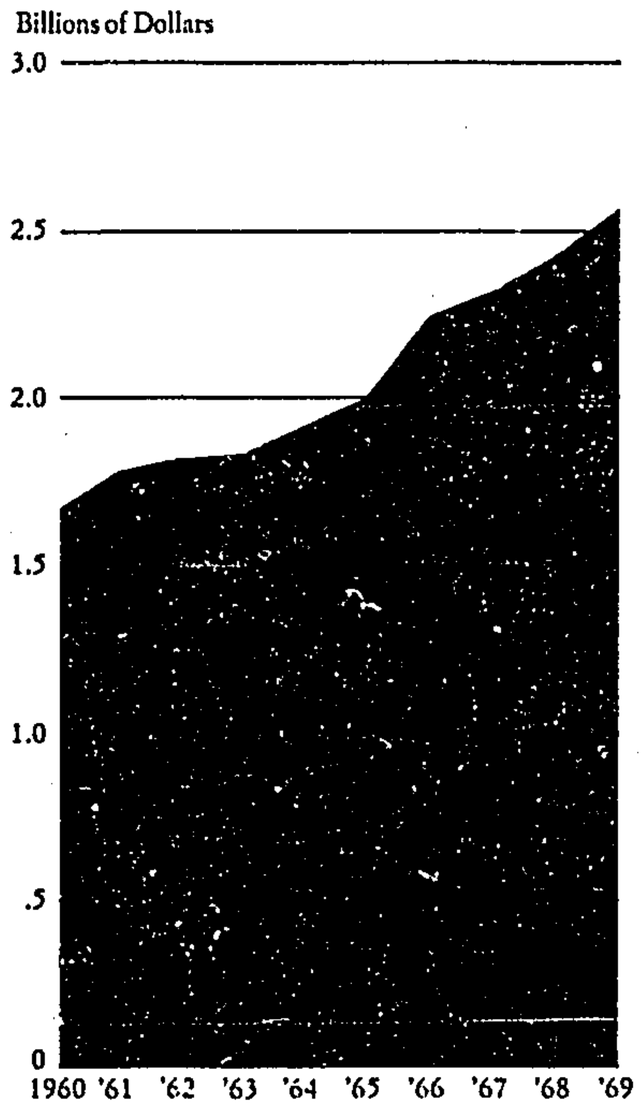
The Company is subject to the following three orders of the Federal Trade Commission: Order of January 30, 1963, providing that until October 1, 1972 the Company will not, without the prior approval of the Commission, acquire the stock or assets of any dairy products business in the United States (in 1969 the Commission commenced a proceeding which seeks, among other things, to extend this Order for an additional five years); Order of December 9, 1968, prohibiting certain discriminations among customers in pricing and promotional practices of the Sealtest Foods Division; and Order of October 2, 1969, prohibiting certain price promotions of the Kraft Foods Division in connection with the sale of jellies and preserves.

Motions to dismiss the December, 1967 indictments of members of the New York City milk industry, in which the Company and one of its officers are included as defendants, are pending in a New York State court.

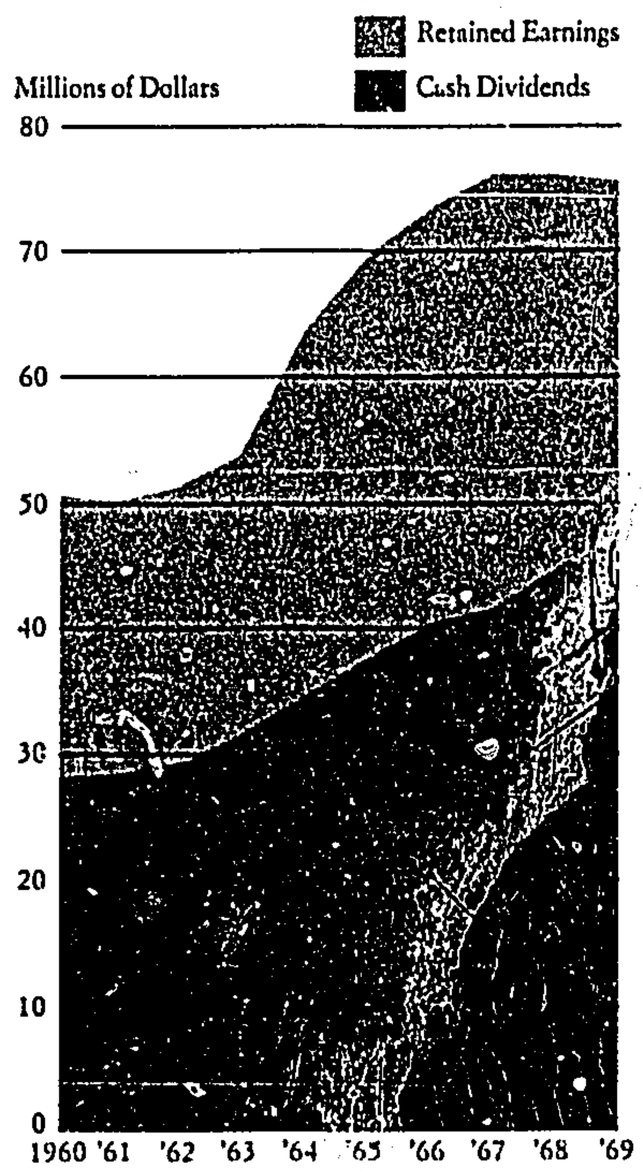
The Company is a defendant and in some cases a co-defendant in a number of treble damage suits brought in different jurisdictions in the United States and based on alleged violations of the antitrust laws. These suits are being actively defended and management is of the opinion that recoveries, if any, under them will not be of material significance to the Company's financial position or operations.

The Company is also the defendant or one of several defendants in actions of a character usual for companies operating in similar businesses. In addition, information has been requested from the Company in connection with several investigations being conducted by governmental agencies. See also the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements on page 25.

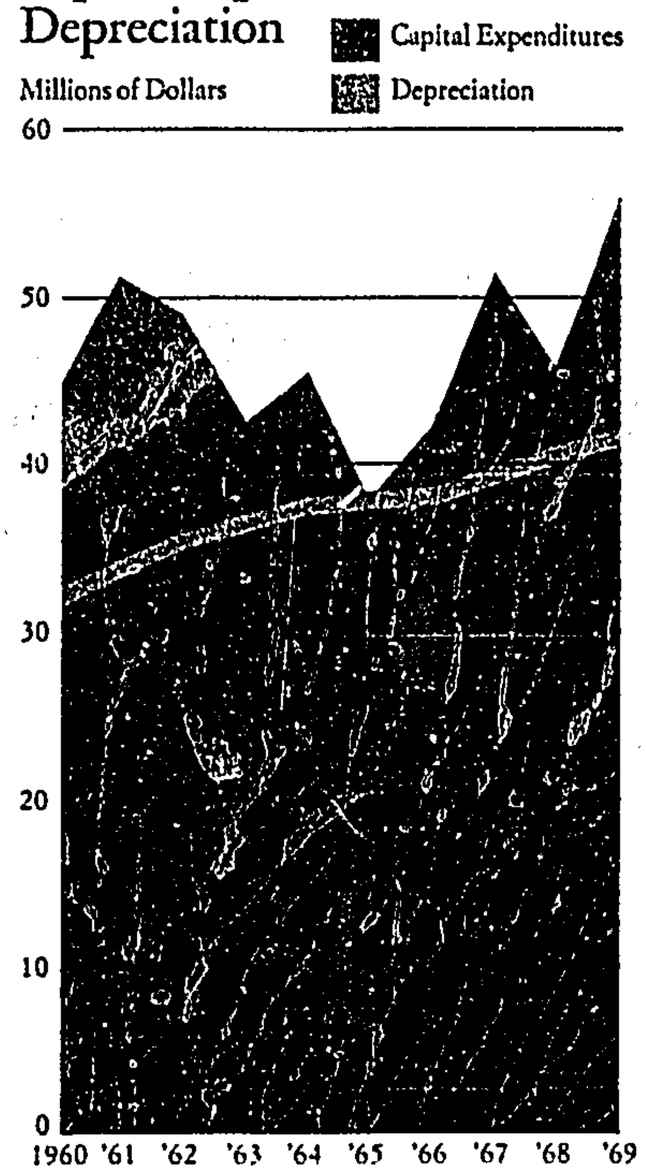
Ten Year Sales



Ten Year Earnings



Ten Year Capital Expenditures and Depreciation

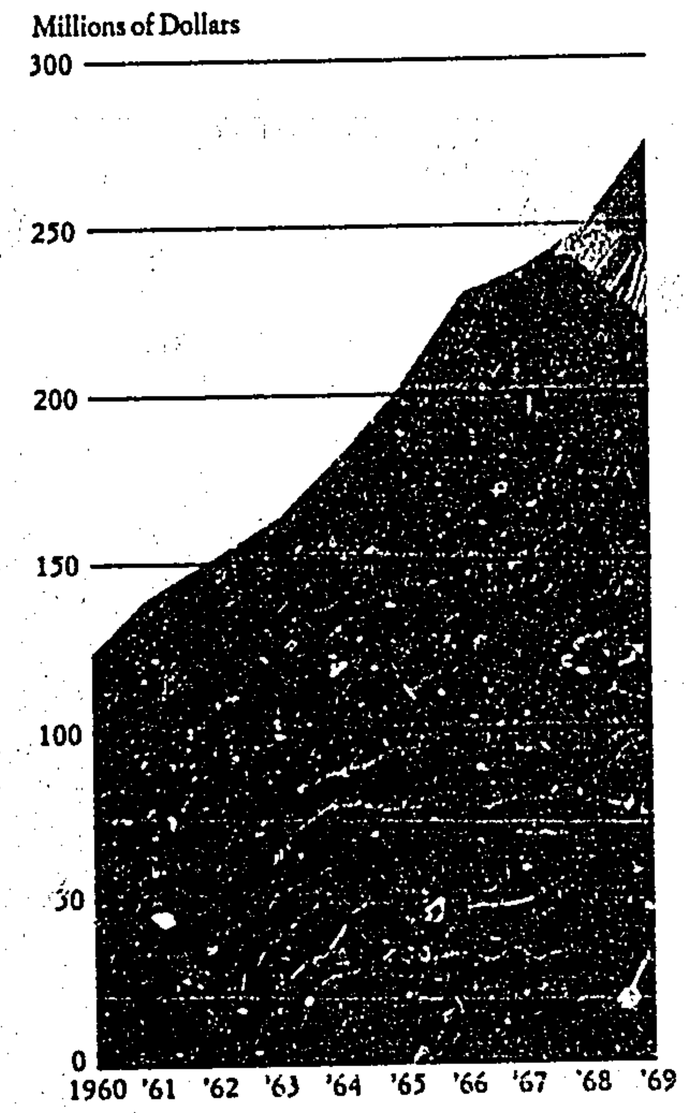


Ten Year Sales by Class of Products

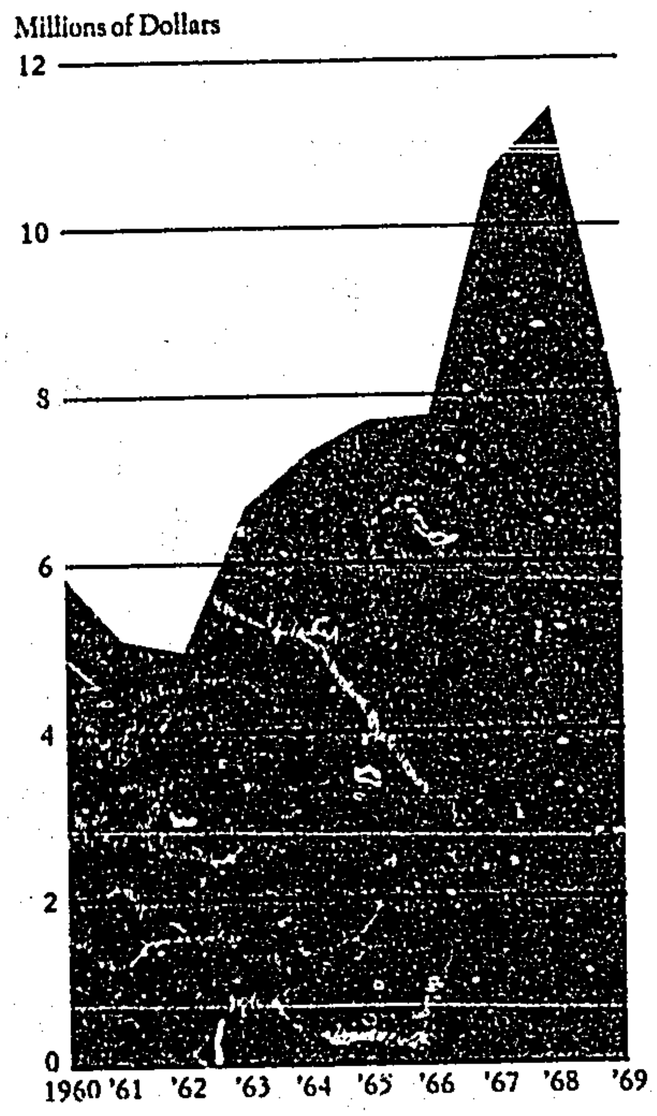
as a percent of total net sales

	Manufactured Dairy Products	Processed Food Products	Fluid Milk Products	Ice Cream & Frozen Desserts	Other Products
1969	39.3%	33.4%	18.2%	6.5%	2.6%
1968	38.1	33.2	19.4	7.1	2.2
1967	38.4	32.5	19.7	7.3	2.1
1966	38.4	32.2	19.6	7.7	2.1
1965	37.4	31.9	20.0	8.5	2.2
1964	37.1	30.8	21.1	8.9	2.1
1963	36.7	29.9	22.1	9.3	2.0
1962	36.7	29.5	22.6	9.2	2.0
1961	36.9	28.2	23.1	9.8	2.0
1960	37.4	25.8	24.3	10.5	2.0

Ten Year International Sales
(Excluding Canada)



Ten Year International Earnings
(Excluding Canada)



Consolidated Balance Sheets

Assets

	December 27, 1969	December 28, 1968
Current Assets:		
Cash and temporary investments	$ 55,510,834	$ 92,913,143
Notes and accounts receivable, less allowance for losses ($5,753,025 in 1969 and $5,179,039 in 1968)	178,573,157	159,044,117
Inventories, at lower of average cost or market—		
Products and materials	314,176,822	286,339,907
Supplies	26,906,478	24,113,457
Total current assets	$575,167,291	$562,410,624
Property, Plant & Equipment, at cost:		
Land	$ 22,026,637	$ 20,339,642
Buildings	252,846,000	242,891,869
Machinery and equipment	469,639,124	447,225,444
	$744,511,761	$710,456,955
Less—Accumulated depreciation (See note)	384,612,319	363,765,460
	$359,899,442	$346,691,495
Other Assets:		
Miscellaneous investments and receivables	$ 11,394,749	$ 11,885,913
Prepaid and deferred items	4,796,990	3,698,706
Intangibles (See note)	26,425,771	23,458,481
	$ 42,617,510	$ 39,043,100
	$977,684,243	$948,145,219

(See Notes to Consolidated Financial Statements, pages 25 and 26.)

Liabilities and Stockholders' Equity

	December 27, 1969	December 28, 1968
Current Liabilities:		
Accounts payable and accrued liabilities	$172,607,183	$159,823,348
Short-term loans of International Subsidiaries	25,025,265	17,898,253
Provision for Federal and foreign taxes on income	20,967,405	23,828,157
Current portion of long-term debt, less amounts provided for payment ($6,467,000 in 1969 and $3,600,000 in 1968)	30,708,000	1,200,000
Total current liabilities	$249,307,853	$202,749,758
Long-Term Debt (See note)	$ 57,376,774	$ 87,727,814
Other:		
Deferred taxes on income	$ 14,194,479	$ 12,404,869
Reserves for insurance, etc.	5,664,423	4,622,862
Minority interest in subsidiaries	2,022,056	1,942,526
	$ 21,880,958	$ 18,970,257
Contingent Liabilities (See note)		
Stockholders' Equity (See note):		
Preferred stock, $1.00 par value—authorized 10,000,000 shares; none issued at December 27, 1969	$ —	$ —
Common stock, $2.50 par value—authorized 60,000,000 shares; issued 29,331,748 shares at December 27, 1969 and 29,302,125 shares at December 28, 1968	73,329,370	73,255,312
Capital surplus	47,166,728	46,282,206
Retained earnings (at December 27, 1969, $116,125,000 restricted as to payment of dividends under indentures)	586,344,146	557,795,753
	$706,840,244	$677,333,271
Less—Treasury stock at cost—1,410,939 shares at December 27, 1969; 963,365 shares at December 28, 1968	57,721,586	38,635,881
Stockholders' equity	$649,118,658	$638,697,390
	$977,684,243	$948,145,219

(See Notes to Consolidated Financial Statements, pages 25 and 26.)

Consolidated Statements of Income

Kraftco Corporation . . . and Subsidiaries

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Income:		
Net sales	$2,580,905,215	$2,428,105,530
Other income	9,186,564	8,286,755
Total	$2,590,091,779	$2,436,392,285
Costs and expenses:		
Cost of products	$1,970,676,147	$1,852,960,144
Delivery, selling, and administrative expense	455,423,943	425,808,660
Interest on long-term debt	3,721,971	3,589,566
Miscellaneous charges, net	3,923,317	2,458,100
Total	$2,433,745,378	$2,284,816,470
Income before Federal and foreign taxes	$ 156,346,401	$ 151,575,815
Provision for Federal and foreign taxes on income	80,721,000	75,414,000
Net income for the year	$ 75,625,401	$ 76,161,815
Net income per share of common stock	$ 2.69	$ 2.67
Average number of shares outstanding during the period	28,111,096	28,497,431

Consolidated Statements of Retained Earnings

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Balance at beginning of year	$ 557,795,753	$ 526,519,802
Net income for the year	75,625,401	76,161,815
	$ 633,421,154	$ 602,681,617
Dividends on common stock ($1.675 per share in 1969 and $1.575 in 1968)	47,077,008	44,885,864
Balance at end of year	$ 586,344,146	$ 557,795,753

(See Notes to Consolidated Financial Statements, pages 25 and 26.)

Consolidated Statements of Source and Application of Funds

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Source of Funds:		
Funds derived from operations—		
Net income for the year	$ 75,625,401	$ 76,161,815
Non-cash charge—Depreciation	42,305,221	41,206,083
	$117,930,622	$117,367,898
Sale of common stock under options	1,188,015	2,292,585
	$119,118,637	$119,660,483
Application of Funds:		
Dividends paid on common stock	$ 47,077,008	$ 44,885,864
Property, plant and equipment additions, net	55,513,168	44,248,051
Decrease (increase) in long-term debt, net	30,351,040	(2,583,111)
Treasury stock acquired, net	19,315,140	17,150,997
Other applications, net	663,709	1,850,220
	$152,920,065	$105,552,021
(Decrease) Increase in Working Capital	$(33,801,428)	$ 14,108,462

Notes to Consolidated Financial Statements... December 27, 1969

Depreciation
Depreciation charges are generally computed on a straight-line basis over estimated useful lives of buildings and estimated composite group lives of machinery and equipment.

Intangibles
Intangibles represent the excess of the purchase prices paid over the net book values of the tangible assets of certain businesses acquired since 1955. The Company does not now intend to amortize items carried in this account.

Contingent Liabilities
Substantial amounts are involved in various legal proceedings in which the Company is a defendant. It is not feasible to predict or determine the outcome of these proceedings, the adjustments in operations which adverse decisions might require or the ultimate liabilities, if any, which might result, but it is believed that the outcome would not materially affect the Company's consolidated financial position or operations.

Notes to Consolidated Financial Statements... December 27, 1969

Employees' Stock Options

At December 27, 1969, 1,593 employees of the Company (including officers) held options, granted under the Company's Employees' Stock Option Plan as amended in 1958, and under the 1965 Stock Option Plan, for an aggregate of 643,062 shares, at prices ranging from $30.25 to $41.65 per share, with an aggregate purchase price of $24,469,340. At that date 1,702 shares remained available under the 1965 Plan for future grants. Options become exercisable in cumulative periodic installments and in 1969 options covering 133,423 shares became exercisable, having an aggregate purchase price of $4,959,107. As of December 27, 1969, options for 330,916 shares were exercisable. During the year options covering 35,444 shares were exercised and the proceeds, $1,188,015, were credited to the common stock, treasury stock and capital surplus accounts.

Company Pension Plans

The Company and its subsidiaries have several pension plans, including joint industry and union plans, covering substantially all employees. It is the Company's general policy to provide and fund current service costs and interest on unfunded past service costs annually. Total pension costs approximated $15,550,000 in 1969 and $15,100,000 in 1968. At January 1, 1969, employees' vested benefits were fully funded.

Long-Term Debt

All of the issues of debentures and debenture stock have sinking fund or prepayment requirements. The amounts shown below as outstanding at December 27, 1969, exclude maturities and sinking fund requirements included in current liabilities, and $7,842,000 of debentures held in treasury in excess of current sinking fund requirements.

Kraftco Corporation	December 27, 1969	December 28, 1968
2¾% Debentures due 1970	$ —	$16,112,000
3% Debentures due 1970 ..	—	9,821,000
3⅛% Debentures due 1976	14,944,000	14,944,000
4⅜% Debentures due 1992	30,214,000	32,687,000
Renewable Bank Notes (Belgium)	686,703	3,986,703
Bank Loans due 1973/74 (Eurodollars)	3,987,071	3,817,111
English Subsidiary		
Debenture Stock due 1975 .	5,520,000	5,760,000
Bank Loans due 1971/72 ..	1,200,000	600,000
Venezuelan Subsidiary		
Bank Loans due 1971	825,000	—
	$57,376,774	$87,727,814

Capital Transactions

	Number of Shares		Amount		
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus
December 28, 1968	29,302,125	963,365	$73,255,312	$38,635,881	$46,282,206
Purchased	—	458,500	—	19,527,407	—
Used for—					
Management Incentive Compensation Plan	—	5,105	—	205,264	7,003
Stock options exercised	29,623	5,821	74,058	236,438	877,519
December 27, 1969	29,331,748	1,410,939	$73,329,370	$57,721,586	$47,166,728

Auditors' Report

To the Board of Directors and Stockholders of Kraftco Corporation:

We have examined the consolidated balance sheets of Kraftco Corporation (a Delaware corporation) and Subsidiaries as of December 27, 1969 and December 28, 1968, and the related consolidated statements of income, retained earnings and source and application of funds for the years then ended. We have also examined the statements of financial position and income of International Subsidiaries other than Canadian. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraftco Corporation and Subsidiaries as of December 27, 1969 and December 28, 1968, and the results of their operations and source and application of funds for the years then ended, and the accompanying financial statements of International Subsidiaries other than Canadian present fairly the financial position and results of operations of such subsidiaries, all in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N.Y.,
February 20, 1970.

Arthur Anderson & Co

International Subsidiaries Other Than Canadian

Statements of Income

	52 Weeks Ended December 27, 1969	52 Weeks Ended December 28, 1968
Income:		
Net sales	$273,625,289	$248,622,200
Other income	1,041,567	1,092,298
Total	$274,666,856	$249,714,498
Costs and expenses:		
Cost of products	$212,424,429	$189,894,583
Delivery, selling, and administrative expense	47,442,724	40,288,997
Interest on long-term debt	545,120	483,339
Total	$260,412,273	$230,666,919
Income before taxes	$ 14,254,583	$ 19,047,579
Provision for taxes on income	6,477,121	7,643,831
Net income for the year	$ 7,777,462	$ 11,403,748

Statements of Financial Position

	December 27, 1969	December 28, 1968
Cash and temporary investments	$ 7,295,963	$ 7,502,966
Notes and accounts receivable	26,274,161	21,186,895
Inventories	51,019,638	43,387,960
Total current assets	$ 84,589,762	$ 72,077,821
Current liabilities	53,874,549	43,768,235
Working capital	$ 30,715,213	$ 28,309,586
Property, plant and equipment, less accumulated depreciation	48,563,991	46,689,268
Other assets	2,171,458	1,878,096
	$ 81,450,662	$ 76,876,950
Less—Long-term debt, reserves and minority interest	11,251,113	9,178,109
Net tangible assets	$ 70,199,549	$ 67,698,841

The above accounts are included in the Consolidated Financial Statements.

Principal Divisions and Operations

UNITED STATES OPERATIONS

Kraftco's operations in the United States are conducted by six Divisions:

Kraft Foods Division manufactures and distributes throughout the United States processed food products and manufactured dairy products, to a major extent in packaged form. The Division markets its products principally under the trademark "Kraft" and, in addition, markets such brand name products as "Velveeta" process cheese spread, "Parkay" margarine, "Miracle Whip" salad dressing, "Philadelphia" cream cheese and "Cracker Barrel" natural cheese. Kraft Foods also distributes certain products manufactured by others, including refrigerated, ready-to-bake biscuits, rolls and cookies under The Pillsbury Company's trademarks.

Sealtest Foods Division processes and distributes, chiefly east of the Mississippi River, fluid milk products, certain manufactured dairy products and ice cream and frozen desserts. Such products are distributed principally to retail stores and institutional purchasers and fluid milk and certain other products are also distributed directly to homes. Sealtest Foods Division also sells fruit beverages, butter and other products. The Division markets most of its products under the trademark "Sealtest". A low-fat line of milk, ice milk and dairy specialty products is marketed under the additional trademark "Light n' Lively", and ice cream is also sold under the "Breyers" trademark.

Breakstone Sugar Creek Foods Division manufactures and distributes certain manufactured dairy products, including cottage cheese, cream cheese, sour cream, yogurt and butter, primarily in the Eastern and Midwestern parts of the United States. The Division's principal trademark is "Breakstone".

HumKo Products Division refines and produces edible oils and shortenings for distribution to food processors and retail stores, and for Kraftco's use. It also produces a line of industrial chemicals derived from fats.

Metro Glass Division manufactures glass containers for users (including Kraftco) in many industries, such as food, beverage, drug, chemical, household products and cosmetics.

Research and Development Division is responsible for conducting the Corporation's applied and fundamental research and coordinating quality control activities. It performs research directed to the development of new and improved products, packaging and processes for the manufacturing and marketing divisions and international subsidiaries of the Corporation.

CANADIAN OPERATIONS

Kraft Foods Division supervises two Canadian subsidiaries; Kraft Foods Limited which manufactures and distributes processed food products and manufactured dairy products under substantially the same trademarks used in the United States and Vancouver Fancy Sausage Company, which manufactures and distributes specialty meat products. Sealtest Foods Division supervises another Canadian subsidiary, Dominion Dairies Limited, which produces and distributes fluid milk products, certain manufactured dairy products and ice cream and frozen desserts in Ontario and Quebec, principally under the trademark "Sealtest".

INTERNATIONAL OPERATIONS

Subsidiaries in Australia, Belgium, Britain, Denmark, France, Germany, Guatemala, Ireland, Italy, Mexico, Panama, Philippines, Spain, Sweden and Venezuela distribute, and in most cases produce, processed food products and manufactured dairy products under "Kraft", "Philadelphia", "Velveeta", "Cracker Barrel" and other trademarks used in the United States as well as under certain trademarks used exclusively overseas. These subsidiaries are supervised by the Kraft Foods Division. A company jointly owned by Kraftco and a Japanese food company has recently been formed to produce processed cheese products in Japan.

Ten Year Summary

(Dollar amounts in thousands, except per share figures)

	1969	1968	1967
Income and Dividends:			
Net sales	$2,580,905	$2,428,106	$2,318,587
Income before Federal and foreign taxes on income	156,346	151,576	140,950
Net income after taxes	75,625	76,162	76,120
Dividends	47,077	44,886	41,641
Per share of common stock:			
Net income after taxes	$2.69	$2.67	$2.65
Dividends	$1.675	$1.575	$1.45
Financial position:			
Cash and temporary investments	$ 55,511	$ 92,913	$ 84,701
Notes and accounts receivable, net	178,573	159,044	140,469
Inventories	341,083	310,453	310,831
Total current assets	575,167	562,410	536,001
Total current liabilities	249,308	202,750	190,449
Working capital	325,859	359,660	345,552
Property, plant and equipment, net	359,899	346,691	343,650
Total assets	977,684	948,145	915,344
Long-term debt	57,377	87,728	85,145
Stockholders' equity	649,119	638,697	622,280
Per share of common stock	$23.25	$22.41	$21.66
Statistical information:			
Capital expenditures	$ 56,511	$ 45,799	$ 51,600
Depreciation charged during the year	42,305	41,206	39,980
Total taxes—income, property and other	114,096	105,876	92,425
Per share of common stock	$4.06	$3.71	$3.21
Interest on long-term debt	3,722	3,590	3,485
Payroll	346,973	323,257	309,905
Average number of employees	48,160	47,007	47,060
Number of stockholders at year end	71,584	71,702	72,352

Per share figures for all years prior to 1966 have been adjusted for the two-for-one stock split in 1966.

1966	1965	1964	1963	1962	1961	1960
$2,251,725	$2,017,280	$1,919,945	$1,838,971	$1,820,538	$1,790,834	$1,667,176
135,476	129,057	123,951	110,444	104,478	101,526	101,947
73,461	69,902	63,784	54,018	51,303	50,211	50,667
40,413	37,664	34,729	31,703	29,411	28,536	28,177
$2.55	$2.41	$2.20	$1.87	$1.78	$1.75	$1.79
$1.40	$1.30	$1.20	$1.10	$1.02	$1.00	$1.00
$ 69,466	$ 117,082	$ 113,846	$ 93,341	$ 89,551	$ 27,747	$ 43,297
134,830	121,815	112,070	105,340	97,155	95,180	87,998
310,832	250,928	241,754	244,738	238,713	262,197	224,587
515,128	489,825	467,670	443,419	425,419	385,124	355,882
189,524	180,824	171,055	161,021	156,883	170,667	146,638
325,604	309,001	296,615	282,398	268,536	214,457	209,244
334,347	330,866	332,136	329,440	326,603	317,799	298,103
884,518	852,652	824,629	796,721	774,267	726,173	670,343
87,732	89,322	95,638	109,071	116,599	81,808	84,178
592,680	566,239	538,638	507,107	482,467	458,455	428,026
$20.58	$19.56	$18.58	$17.56	$16.78	$16.02	$15.16
$ 42,481	$ 37,767	$ 45,450	$ 42,667	$ 49,235	$ 51,327	$ 44,425
38,481	38,222	37,897	36,955	35,946	34,378	32,771
89,072	82,636	83,299	79,798	75,542	72,087	71,490
$3.09	$2.85	$2.87	$2.76	$2.63	$2.52	$2.53
3,552	3,483	3,759	4,129	3,711	2,598	2,737
301,407	280,983	274,546	271,908	273,263	272,159	262,013
46,525	45,157	45,172	46,432	47,596	48,822	47,943
71,240	68,762	69,073	68,682	69,727	69,993	69,940

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